Title V: Prevention of Dependency

This set of proposals is designed to reduce the number of pregnancies among teenagers, as well as improve the parenting and employment skills of those who already have children. Enactment of the title would increase federal outlays by $0.4 billion over the next five years.

The majority of new federal spending would fund two grant programs that would develop pregnancy-prevention programs based in schools and related demonstration projects. Additionally, federal funding would be made available to improve case management services for teenage recipients of AFDC. Combined, these initiatives, authorized in sections 503-506, would cost slightly less than $0.5 billion over the 1995-1999 period.

This additional spending would be partially offset by two AFDC initiatives (sections 501 and 502). The first proposal would require certain teenage parents who are 17 years old or younger to live with their parents or other responsible adults in order to receive AFDC. The experience of states that have already adopted similar proposals suggests that the caseload and fiscal effects of the proposal would be minimal. In these states, most young teenagers who choose to live apart from their families have been granted exemptions because welfare agencies have been concerned about potential

abuse in the parents' home. CBO estimates five-year savings of less than $50 million.

The second proposal would allow states to eliminate benefits for children who were conceived while their mother was receiving AFDC (hereafter called the family cap proposal). A 1994 survey of state AFDC administrators suggests that only a small number of states would be interested in adopting that provision. Based on this survey, CBO assumes that states with only 15 percent of the AFDC caseload would adopt the family cap provision, resulting in savings of less than $50 million over the 1995-1999 period. The family cap proposal has attracted more attention in recent months, however, and more states could adopt the provision if the political climate changes. If all states were to adopt the family cap provision, CBO estimates that the savings through 1999 would be $300 million.

Title VI: Child Support Enforcement

Title VI would change many aspects of the operation and financing of the federal and state child support enforcement system. CBO estimates that title VI would increase federal spending by less than $0.1 billion in 1995 and about $0.9 billion over the 1995-1999 period. Three factors explain why this

child support package results in net costs rather than net savings. First, the bill proposes a significant investment in automated systems, which would increase administrative costs through 1999. Second, a number of the proposed collection techniques, which would be capable of producing welfare savings, rely on the enhanced computer system and thus would be effective only in the long run. Finally, the package would reduce the amount of child support that governments retain as reimbursement for past welfare payments, which generates a direct cost.

Using reports on the performance of various enforcement strategies at the state level, CBO estimates that child support collections received by families on AFDC in 1999 would increase under the bill by roughly 15 percent over current expectations (from $3.8 billion to $4.3 billion). Nearly two-thirds of the improvement would result from the creation of a new hire registry (designed to expedite receipt of earnings information on noncustodial parents); measures to revoke professional and driver's licenses of noncustodial parents who fail to pay child support; and an improved process of establishing paternity. The package also would increase child support payments to families who benefit from governmental enforcement services but do not receive AFDC. Collections for such families would rise by an estimated 9 percent in 1999 (from $11 billion to $12 billion). Some states have already

applied one or more of the proposed techniques, thereby reducing the potential of improving collections further.

Increasing child support payments by noncustodial parents to AFDC recipients would directly reduce the recipients' reliance on AFDC and related welfare programs. Moreover, child support payments to families that are not on AFDC would allow some to avoid receiving public assistance in the future. In both cases, federal and state governments would save on welfare outlays.

Given the collections estimates described above, CBO projects that the enforcement proposals in H.R. 4605 would reduce federal spending on AFDC, Food Stamps, and Medicaid by more than $0.6 billion over the next five years. These savings would be more than offset, however, by increased spending generated by the remaining child support proposals.

Computer enhancements, financing changes, service expansions, and demonstration projects would increase federal outlays by $1.5 billion through 1999. First, H.R. 4605 (section 614) would authorize further improvements in states' automated computer systems at an estimated cost of $0.4 billion over five years. Second, the bill would change federal cost sharing in enforcing child support. Although the new funding formula (sections 611 and 612) would be approximately cost neutral in the long run, it would be more

generous to states in the early years, generating a net cost of $0.2 billion between 1995 and 1999. Third, sections 603 and 662 would limit the amount of collected child support that the state and federal governments would retain to reimburse themselves for past welfare payments made to custodial families. Together, the two sections would cost the federal government $0.3 billion. Finally, the remaining set of proposals, which would expand the number of families served by the enforcement program and begin demonstration projects, would increase federal outlays by nearly $0.5 billion.

Title VII: Improving Governmental Assistance and Preventing Fraud, and Title VIII: Self-Employment Demonstrations

Titles VII and VIII comprise numerous changes in the AFDC and Food Stamp programs, some of which are designed to make the rules for determining eligibility consistent between the two programs. Adoption of a number of the key proposals in these titles would be optional for the states, making an estimate of budgetary effects uncertain. When assumptions about future state spending and policy behavior on a provision-by-provision basis are incorporated, CBO estimates that titles VII and VIII would increase mandatory federal spending by $0.3 billion in 1996 and $1.8 billion between 1996 and 1999. Most of the new spending would be generated by three

proposals that would liberalize the treatment of recipient earnings, resources, and work activity in the AFDC program.

Section 705 would require states to change the method by which they reduce AFDC benefits for families with earned income. Currently, benefits are determined by a state's maximum payment less the family's countable income. Almost all unearned income is counted; however, earned income is reduced by a number of monthly deductions--a flat $90 for work expenses, $30 for the first 12 months the family has earnings, 33 percent of the remaining earnings for the first four months that the family has earnings, and actual child care expenses up to $175 per child ($200 for children under age 2). These factors are commonly referred to as income disregards.

The proposal would require states to disregard at least the first $90 in monthly earnings (to cover the family's work expenses) plus an additional $30 before reducing a family's grant. (Earnings in excess of $120 could reduce the AFDC grant dollar for dollar.) States could select policies, however, that would be more favorable to families, allowing them to keep additional earnings without lowering their benefits. More liberal policies would allow some families to remain on AFDC longer while making other families eligible for the program, thus increasing AFDC caseloads and costs.

A recent national survey indicated that 30 states are interested in experimenting with more generous policies through the federal waiver process.[2] CBO assumes that states with half of the AFDC caseload would choose to carry out disregard policies beyond the $120 required by H.R. 4605. CBO also assumes that, on average, those states would disregard $90 for work expenses, plus $30 (as required) and an additional one-third of a family's earnings. (This policy is similar to the AFDC law before 1982.) Given this assumption, CBO estimates that the earnings disregard (along with several smaller income-related provisions in section 705) would increase federal spending by more than $0.6 billion during the 1996-1999 period.

H.R. 4605 would also require states to change their treatment of liquid assets held by families. Under current law, states allow families to have up to $1,000 in liquid assets (homes are excluded, and the equity value of one automobile is excluded to $1,500).[3] Section 707 would raise the general asset limit to $2,000 for most families and $3,000 for families with a recipient over age 60. As with the earnings disregard policy, the change in the limit would increase caseloads by making some families newly eligible and allowing current participants to remain on the program longer. CBO estimates that the

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2. Julie Strawn and others, *Final Report: The National Governors' Association Survey of State Welfare Reforms* (Washington, D.C.: National Governors' Association, 1994).

3. The Secretary of Health and Human Services has indicated an interest in raising the automobile asset limit, but the proposal is not included in H.R. 4605.

more liberal treatment of assets would increase federal outlays by $0.4 billion between 1996 and 1999.

The third major change in these two titles would allow states to drop special rules designed to limit eligibility in the AFDC-Unemployed Parent (UP) program. The program serves two-parent families whose principal wage earner is unemployed. Current law defines unemployment as working less than 100 hours a month. Section 702 would allow states to eliminate the 100-hour rule; working families in the UP program would be treated as other AFDC families, losing eligibility only if their earnings, unearned income, or resources exceeded specified levels. In addition, states could eliminate eligibility rules that require UP applicants to prove a recent work history. States with a sizable proportion of the UP caseload have already placed in effect versions of these proposals through federal pilot programs. Based on a recent survey of state welfare reform initiatives, CBO assumes that states with 60 percent of the UP caseload would eventually remove the 100-hour rule.[4] In addition, a subset of these states, representing a quarter of the total caseload, would no longer require a recent work history. This would result in increased federal spending of $0.1 billion in 1997 and nearly $0.6 billion through 1999.

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4. Strawn and others, *Final Report: The National Governors' Association Survey of State Welfare Reforms.*

Title IX: Financing

Title IX is made up of a mix of spending cuts and revenue increases designed to offset the spending associated with the bill's other eight titles. Together the spending cuts and revenue increases would amount to more than $0.2 billion in 1995 and $6.9 billion over the next five years.

Two-fifths of these reductions come from section 903, which would tighten sponsorship rules for legal immigrants applying for Supplemental Security Income (SSI), Food Stamps, Medicaid, and AFDC. Many legal immigrants enter the country under the sponsorship of a U.S. resident, who signs an affidavit stating that the sponsored alien will not become a public charge. Current eligibility rules in welfare programs require that portions of the sponsor's income be considered available to the new immigrant for a limited period of time after the immigrant's entry into the United States. This so-called deeming of sponsor's income typically makes the immigrant ineligible for aid or eligible for a reduced benefit. H.R. 4605 would extend the deeming period, which would limit access to the programs and reduce costs. CBO estimates that enactment of section 903 would reduce federal outlays by $0.1 billion in 1995 and by nearly $2.9 billion over the next five years. More than 80 percent of these savings would be in the SSI program, which serves the elderly and disabled. The rules regarding deeming of

sponsor's income do not appear, based on the limited data available, to have much effect on families applying for AFDC, Food Stamps, or Medicaid.

Two other provisions would also affect aliens. Section 902 would save more than $0.4 billion over five years by tightening the eligibility standards for aliens for SSI, Medicaid, and AFDC in order to conform with the current standards of the Food Stamp program. Section 910 would increase revenues by $0.2 billion over the same period by making nonresident aliens ineligible for the earned income tax credit.

Section 907 of H.R. 4605 would extend the corporate environmental income tax, a broad-based environmental charge known as the Superfund tax. This tax is currently set to expire at the end of 1995. A preliminary estimate by the Joint Committee on Taxation indicates that an extension would increase revenues by $1.3 billion over the period estimated.

Another $0.8 billion in federal savings would be generated by capping the AFDC-Emergency Assistance (EA) program. The program is designed to meet short-term emergency needs and prevent reliance on the regular AFDC program. States recently widened the scope of their EA programs to fund a range of additional services to low-income families. Consequently, the program, which had cost the federal government about $0.2 billion a year in

recent years, is expected to grow and cost $0.8 billion by 1999. The program would be capped at about $0.5 billion in 1995; the cap would be adjusted for inflation in subsequent years. CBO expects savings to rise from less than $0.1 billion in 1995 to more than $0.2 billion in 1999.

The remaining financing provisions would:

- Target meal subsidies in family day care homes toward low-income areas or providers by introducing an income test, thus saving an estimated $0.5 billion over the period projected.

- Eliminate Commodity Credit Corporation crop subsidies for farmers and producers who earn more than $100,000 in nonfarm income. CBO estimates that eliminating these subsidies will save $0.3 billion over the period projected.

- Extend railroad safety inspection fees, which are due to expire in 1996. This would raise an estimated $0.2 billion during the five years.

- Require the Department of Defense to report the nontaxable earned income of military employees on Form W-2 to increase

their compliance with EITC rules, and extend the EITC to families of active military personnel who live overseas. CBO estimates that this provision will result in net savings of about $0.2 billion over five years.

- o Extend a temporary reduction in the portion of food stamp overpayment recoveries that states may retain as incentive payments. The change expires in fiscal year 1995. CBO estimates that extending it will raise about $0.1 billion over five years.

Overall, title IX would increase revenues by $1.6 billion through 1999 and reduce outlays by $5.3 billion. The revenue estimates for title IX are preliminary ones provided by the Joint Committee on Taxation.

STATE AND LOCAL GOVERNMENT COSTS

CBO estimates that provisions in titles I through VIII of H.R. 4605 would increase state and local government spending by $0.2 billion in 1996 and $2.6 billion over the 1995-1999 period (see Appendix Table 2). Almost half

of these estimated costs are attributed to programs that would be adopted voluntarily by states.

CBO estimates that under titles I and II, which involve training and work experience programs for AFDC recipients, state spending will increase by $0.3 billion over the five-year period. The increase in state spending would be small in the first few years because the expansion of the JOBS program then would be accompanied by a rise in the federal matching rate. Beginning in 1998, however, the new WORK program would increase state spending more rapidly. The $0.3 billion in increased state spending takes into account estimated savings, primarily in AFDC and Medicaid, that would result as recipients acquire job skills and reduce their dependency on welfare through participation in the JOBS and WORK programs.

CBO estimates that the child care provisions in title III of the bill would raise state spending by $1.0 billion between 1995 and 1999. This figure includes the state share of child care spending under the JOBS, WORK, and "At-Risk" child care programs, adjusted downward under the assumption that some of the state share would be drawn from existing state-funded child care programs.

Under provisions of title VI that increase federal funding of child support enforcement, states would save an estimated $0.5 billion in the 1995-1999 period. CBO projects that the additional federal activities would increase child support payments, which would help single-parent families reduce their reliance on the AFDC program and thereby lower state AFDC and Medicaid costs.

CBO estimates that three provisions in title VII that liberalize AFDC program rules would increase state and local government expenditures by $1.7 billion. These provisions, which were discussed earlier, would allow states to eliminate two special-eligibility requirements that apply to two-parent families, allow states to expand income disregard policies, and raise the resource limit for all AFDC recipients. These more generous policies would allow some families to remain on AFDC longer while making other families newly eligible for the program. As a result, AFDC and Medicaid caseloads and costs would increase. Unlike the expansions in titles I and II, there would be no increase in the federal matching rate for these provisions, so the states would bear a larger proportion of the total cost increase. Two of the three provisions--those liberalizing two-parent family eligibility and income disregards--would be optional to states. CBO has estimated costs for these provisions on the basis of recent surveys of state interest in various welfare

revisions.[5] But because the provisions would be invoked at state option, a state would incur costs only if it adopted one of the measures. These two provisions would cost more than $1.2 billion of the $1.7 billion estimated for the title.

CBO estimates that titles IV and V have small, mostly offsetting costs and savings to state and local governments and that title VIII involves no cost to state and local governments.

Two provisions in title IX--the limitations on alien eligibility for federal welfare benefits and the cap on emergency assistance--are expected to have uncertain and possibly adverse effects on state budgets. Ending the eligibility of some aliens for AFDC and Medicaid would reduce state spending for these programs. Likewise, state supplements for SSI could be reduced by eliminating certain aliens from the federal SSI program. The state and local savings on the Medicaid program, however, may be partly offset by higher costs for health care services provided to uninsured aliens at public hospitals. States have also expressed concern that denying federal welfare benefits to lawfully admitted aliens may induce greater numbers of these people to apply for state and county general assistance payments. This concern is addressed by a provision in H.R. 4605 that would allow states to deny state and local

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5. Strawn and others, *Final Report: The National Governors' Association Survey of State Welfare Reforms.*

cash assistance to individuals who are ineligible for federal welfare benefits on the basis of citizenship. Such a provision may be subject to legal challenges on constitutional grounds, further contributing to the uncertainty of costs or savings to state and local governments.

The impact of the cap on federal spending for Emergency Assistance (section 901) is also uncertain. Much of the projected baseline growth in this program is caused by states' reclassifying existing state-funded programs as emergency assistance programs in order to obtain federal funds. States are also projecting future expansions in emergency assistance services.

A federal cap could have several effects. If states continue to provide an expanding level of emergency assistance services with state funds, the loss of federal funding above the cap would represent a cost to the states. But if states decide to cut services by the amount that corresponds to the lost federal funding, they could minimize the effect on state and local budgets. If states respond to the federal cap with a sufficiently large reduction in services, the proposal could even generate some state savings. Given the significant changes in the way states have applied the Emergency Assistance program in recent months, CBO has not attempted to anticipate future state behavior or estimate state costs at this time.

One of the Administration's objectives was to design a welfare reform proposal that would be budget neutral over the five-year period between 1995 and 1999. Preliminary estimates by the Department of Health and Human Services, which showed costs of $9.3 billion for the first eight titles of the bill offset by $9.3 billion in various revenue and savings provisions, indicated that the Administration had succeeded.

CBO's estimates suggest that enactment of H.R. 4605 would increase the federal deficit by $4.8 billion over the period projected. CBO's estimate of $11.8 billion for increased spending from titles I through VIII exceeds the HHS estimate by $2.5 billion. Furthermore, the $6.9 billion estimate of financing under title IX falls $2.4 billion below the level reported by HHS.

Most of the $2.5 billion difference in estimates of spending provisions (titles I through VIII) is concentrated in projections for the JOBS and WORK programs. The CBO and HHS analyses largely agree on the numbers of participants in both programs through 1999 and on the estimated operational costs for the JOBS and WORK programs. The two estimates diverge, however, on the cost of providing child care for JOBS and WORK participants and the savings resulting from training and work experience.

CBO's estimate for child care costs associated with titles I, II and III in the 1995-1999 period exceeds the HHS estimate by $1.4 billion ($5.5 billion compared with $4.1 billion). One difference is that CBO assumes that the provisions of H.R. 4605 would affect the demographic characteristics of the mothers and children who would fill the estimated 600,000 training slots that are currently available under the JOBS program. CBO assumes that the typical participant would have younger children--and therefore more expensive child care--than under current law. The HHS estimate did not reflect any change in this composition. Another difference is that CBO estimates higher unit costs for children in care, particularly children under 2. A third difference is that HHS expects the policy changes in sections 301-305 and 307 to have an insignificant effect on costs, whereas CBO estimates that these changes would add $0.3 billion over the period projected.

The CBO and HHS estimates also differ on the expected level of welfare savings (through caseload and benefit reductions) that would be generated by the investment in training and work positions. The HHS estimates implicitly assume that the JOBS and WORK programs authorized under H.R. 4605 would outperform welfare-to-work programs of the 1980s and early 1990s. In addition to incorporating estimated welfare savings from published studies, HHS assumed that the existence of the two-year limit would induce additional AFDC recipients to obtain part-time jobs, thus lowering

their AFDC benefit payments. Months in which a member of a family is working would not count toward the time limit. Consequently, part-time work in an unsubsidized job would help families avoid the time limit and future participation in the WORK program. CBO believes that such an effect is unlikely in the program's initial years, when AFDC recipients would not be sure that the states could enforce the time limit and would be unclear about the nature of WORK positions. The differing assumptions partially explain a $0.9 billion difference between the CBO and HHS estimates of welfare savings (that is, CBO estimates $0.6 billion in savings through 1999 and HHS estimates $1.5 billion in savings during the same period).

When combined, the $1.4 billion child care and $0.9 billion welfare savings differences explain almost all of the $2.5 billion gap for titles I through VIII. There are other differences between the estimates (for example, CBO's estimates of the net costs of child support enforcement provisions exceed HHS's estimates by $0.5 billion over the period projected), but they are smaller and offsetting. The $2.5 billion difference should be considered small in view of the great uncertainty surrounding states' abilities to apply new program rules such as time limits and their interest in the bill's numerous optional provisions.

Further, CBO and the Joint Committee on Taxation estimate that the financing provisions in title IX would total $6.9 billion over five years, which is $1.6 billion short of the $8.5 billion estimate reported by the Administration. The principal difference is that CBO estimates $0.8 billion less in savings from capping the AFDC-Emergency Assistance program, reflecting CBO's lower projection of baseline spending than that of the Office of Management and Budget. In addition, CBO estimates $0.4 billion less in savings from the three provisions affecting aliens (sections 902, 903, and 910), primarily because enforcement of sponsorship rules in the Food Stamp program could result in lower savings. The remaining $0.4 billion difference is split between lower estimated revenues from the Superfund tax extension and lower savings from making certain farmers ineligible for crop subsidies.

Finally, the Administration attributes savings of $0.8 billion through 1999 to a provision to restrict SSI benefits paid to drug addicts and alcoholics, recently enacted under separate legislation. Because that provision was not included in H.R. 4605 and is already current law, CBO did not include those savings in its estimate.

APPENDIX TABLES

TABLE A-1 SUMMARY OF FEDERAL GOVERNMENT COSTS OF H.R. 4605, THE WORK AND RESPONSIBILITY ACT OF 1994: A PRELIMINARY STAFF ESTIMATE (By fiscal year, in millions of dollars)

Title	1995	1996	1997	1998	1999	Five-Year Total
			Titles I-VIII			
I and II: JOBS and WORK						
Direct spending						
Estimated budget authority	0	705	585	820	1,390	3,500
Estimated outlays	0	340	515	715	950	2,520
III: Child Care						
Direct spending						
Estimated budget authority	0	830	1,105	1,565	2,240	5,740
Estimated outlays	0	790	1,065	1,515	2,110	5,480
IV: Provisions with Multiprogram Applicability						
Direct spending						
Estimated budget authority	115	260	295	75	-60	685
Estimated outlays	115	260	295	75	-60	685
Amounts subject to appropriations						
Authorization level	15	13	5	5	5	43
Estimated outlays	13	13	6	5	5	42
V: Prevention of Dependency						
Direct spending						
Estimated budget authority	40	59	98	130	165	492
Estimated outlays	10	44	83	115	150	402
VI: Child Support Enforcement						
Direct spending						
Estimated budget authority	40	175	377	155	121	868
Estimated outlays	40	175	377	155	121	868
Amounts subject to appropriations						
Authorization level	1	1	10	10	10	32
Estimated outlays	0	1	2	12	12	27
VII: Improving Government Assistance and Preventing Fraud						
Direct spending						
Estimated budget authority	7	276	355	563	606	1,807
Estimated outlays	7	276	355	563	606	1,807
Amounts subject to appropriations						
Authorization level	0	0	10	20	20	50
Estimated outlays	0	0	10	20	20	50

(Continued)

TABLE A-1 CONTINUED

Title	1995	1996	1997	1998	1999	Five-Year Total
VIII: Self-Employment and Microenterprise Demonstrations						
Amounts subject to appropriations						
Authorization level	0	0	4	8	8	20
Estimated outlays	0	0	4	8	8	20
Subtotals: Titles I-VIII						
Direct spending						
Estimated budget authority	202	2,305	2,815	3,308	4,462	13,092
Estimated outlays	172	1,885	2,690	3,138	3,877	11,762
Amounts subject to appropriations						
Authorization level	16	14	29	43	43	145
Estimated outlays	13	14	22	45	45	139
Title IX						
IX: Financing						
Revenues[a]	2	345	550	506	234	1,637
Direct spending						
Estimated budget authority	-245	-619	-1,223	-1,478	-1,747	-5,312
Estimated outlays	-245	-609	-1,203	-1,478	-1,742	-5,277
Totals: Titles I-IX						
Revenues	2	345	550	506	234	1,637
Direct spending						
Estimated budget authority	-43	1,686	1,592	1,830	2,715	7,780
Estimated outlays	-73	1,276	1,487	1,660	2,135	6,485
Amounts subject to appropriations						
Estimated authorization level	16	14	29	43	43	145
Estimated outlays	13	14	22	45	45	139
Memorandum: Net effect on the deficit (Direct spending outlays minus revenues)	-75	931	937	1,154	1,901	4,848

SOURCE: Congressional Budget Office.

a. Positive revenues reduce the deficit. Revenue estimates are provided by the Joint Committee on Taxation.

TABLE A-2 SUMMARY OF STATE AND LOCAL COSTS OF H.R. 4605, THE WORK AND RESPONSIBILITY ACT OF 1994: A PRELIMINARY STAFF ESTIMATE (By fiscal year, in millions of dollars)

Title	1995	1996	1997	1998	1999	Five-Year Total
I and II: JOBS and WORK	0	44	75	99	130	348
III: Child Care	0	120	200	290	420	1,030
IV: Provisions with Multiprogram Applicability	29	57	59	-21	-58	66
V: Prevention of Dependency	0	0	0	0	-10	-10
VI: Child Support Enforcement	2	-93	-198	-49	-147	-485
VII: Improving Government Assistance and Preventing Fraud	0	70	320	520	740	1,650
VIII: Self-Employment and Microenterprise Demonstrations	0	0	0	0	0	0
IX: Financing	a	a	a	a	a	a
Total	31	198	456	839	1,075	2,599

SOURCE: Congressional Budget Office.

a. The net effect of the limitations on alien eligibility for federal welfare benefits and the cap on the Emergency Assistance program on state and local spending is uncertain. CBO has not attempted to anticipate future state behavior or estimate state costs at this time.